



Background Briefing

SCHOOL AID

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January 2013

The fiscal information in this background briefing is based on data through February 1, 2013.

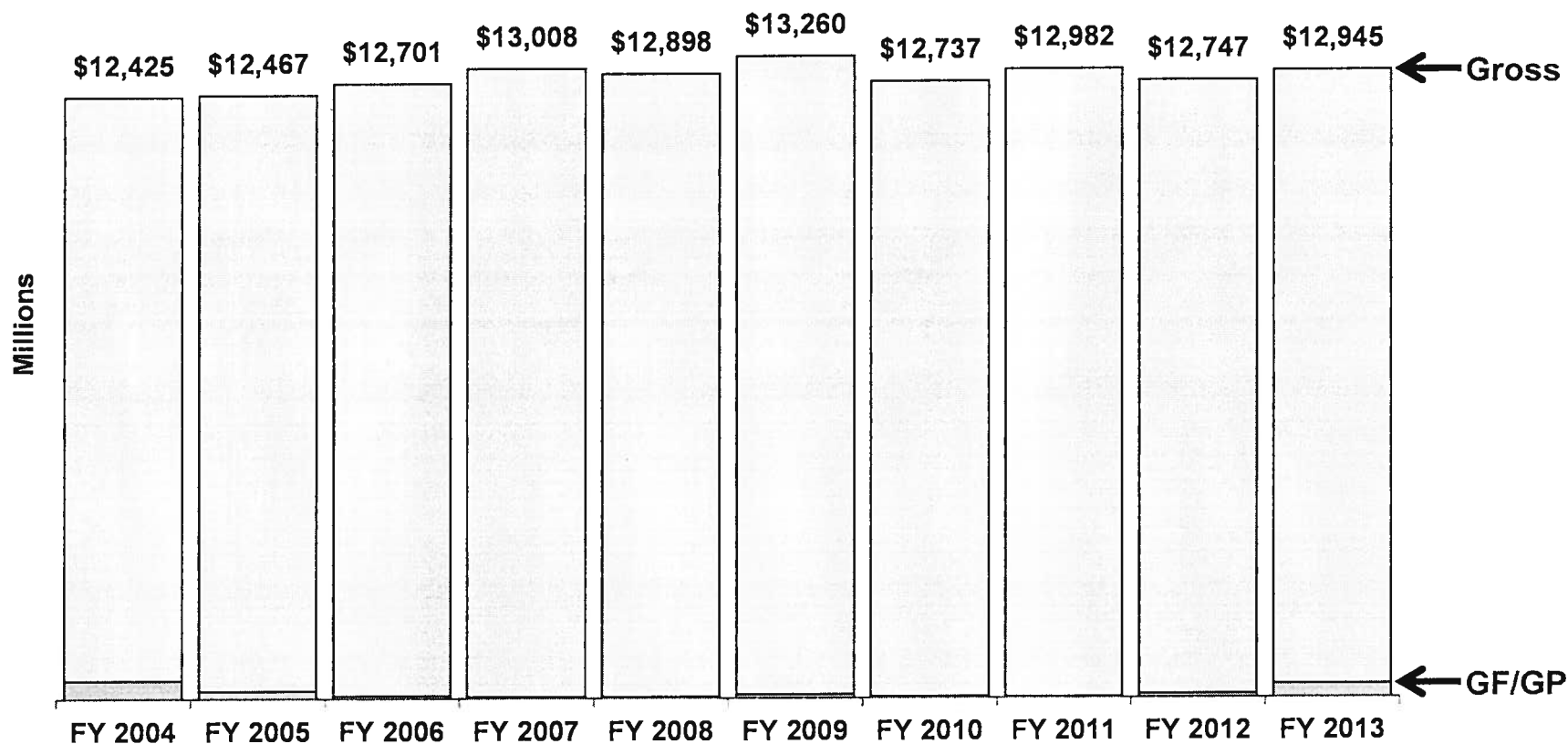
School Aid Budget

The School Aid Budget pays for the day-to-day operations of local public schools, enabling the Legislature to “maintain and support a system of free public elementary and secondary schools as defined by law.”

--- The Michigan Constitution

School Aid: Gross Appropriations

Total School Aid appropriations have remained fairly flat over the last ten years,
In FY 2012-13 gross appropriations are 4.2% higher than in FY 2003-04



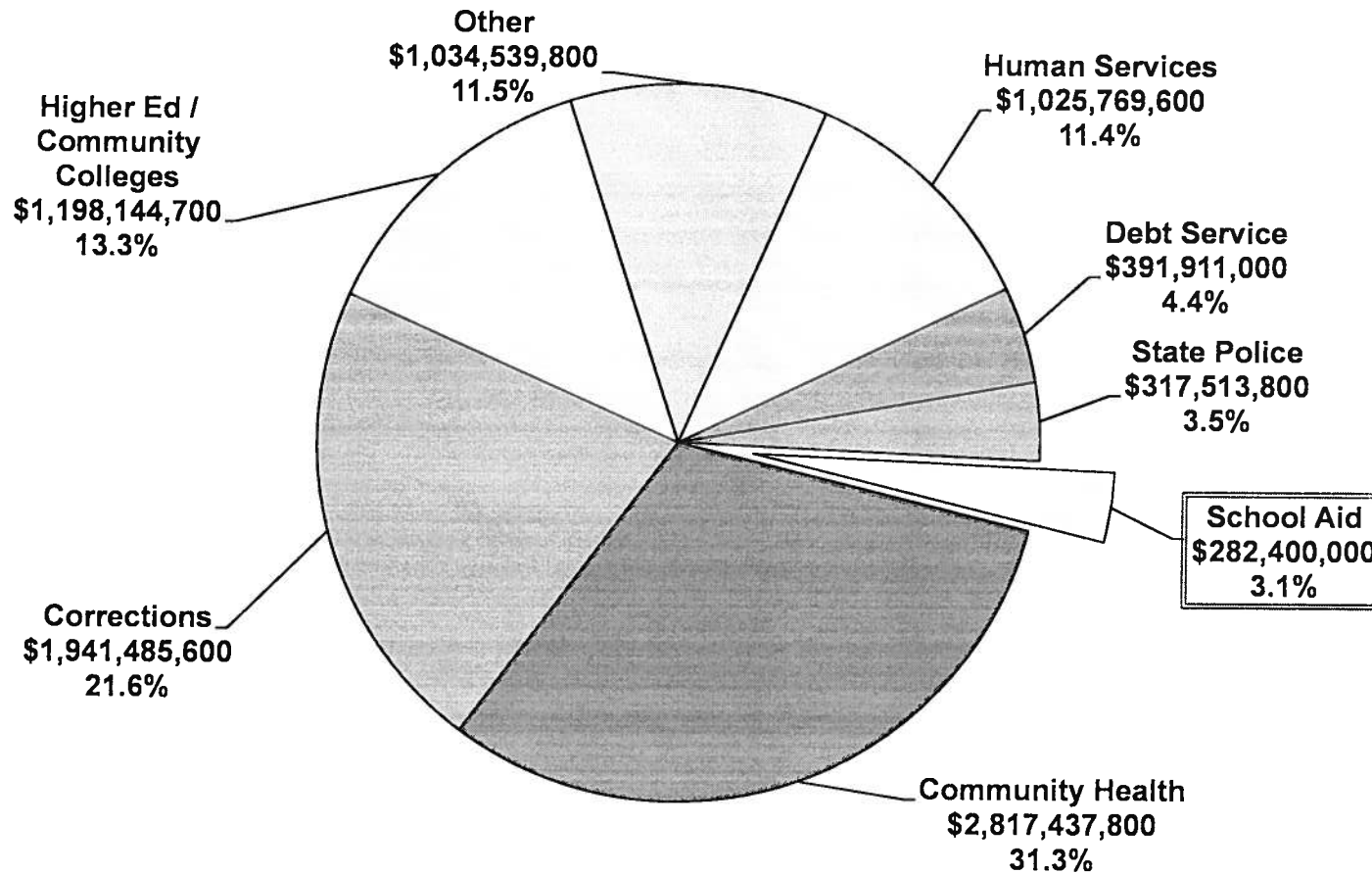
Notes:

1. FY 2004 appropriations are adjusted for mid-year proration reductions.
2. Beginning in FY 2009 figures include a \$342 million shift from local expenditures to State School Aid associated with business tax changes.
3. FY 2009 through FY 2011 each include between \$450 million and \$600 million in contributions from Federal ARRA and EdJobs funding.

School Aid Share of State GF/GP

The School Aid budget makes up 3.1% of the total state GF/GP budget

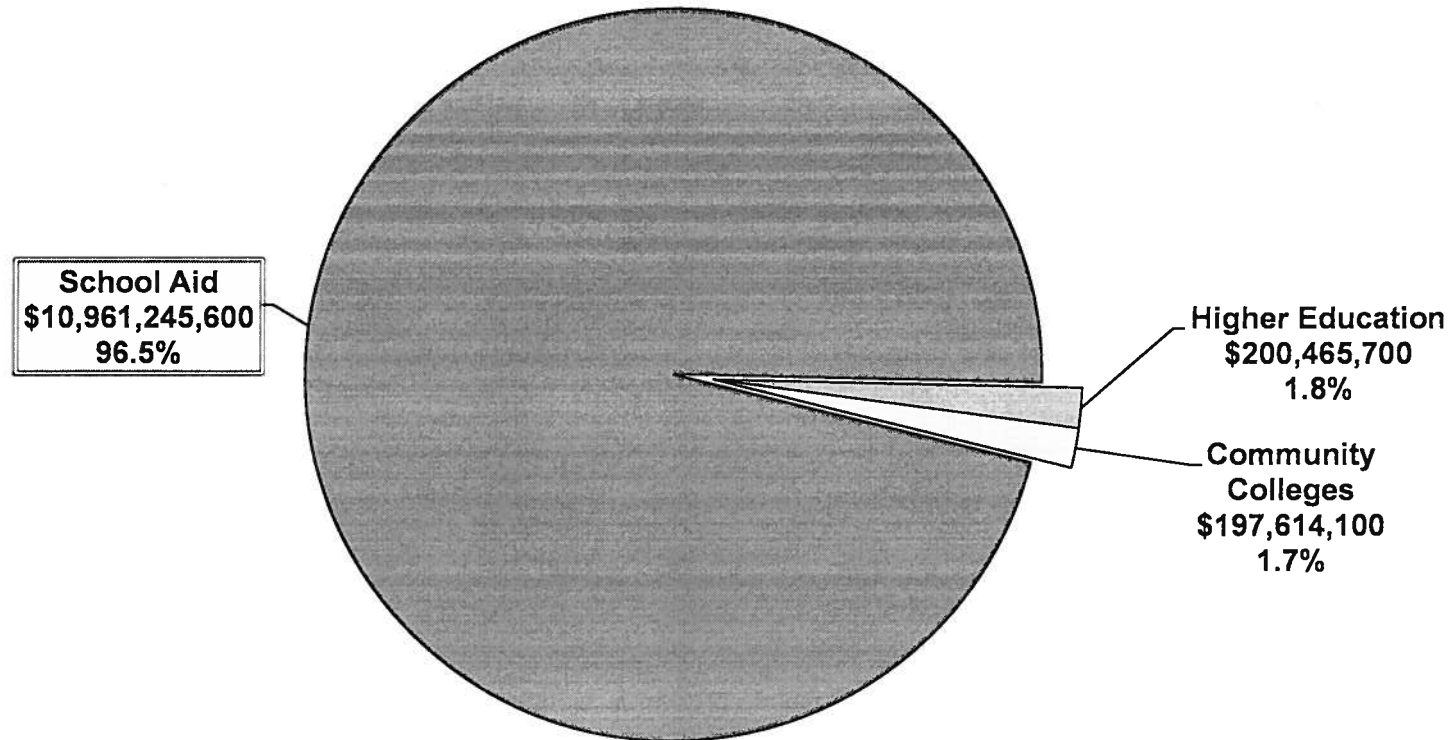
FY 2012-13 GF/GP Total = \$9,009,202,300



School Aid budget Share of School Aid Fund

The School Aid budget receives 96.5% of the total state School Aid Fund (SAF)

FY 2012-13 SAF Total = \$11,359,325,400

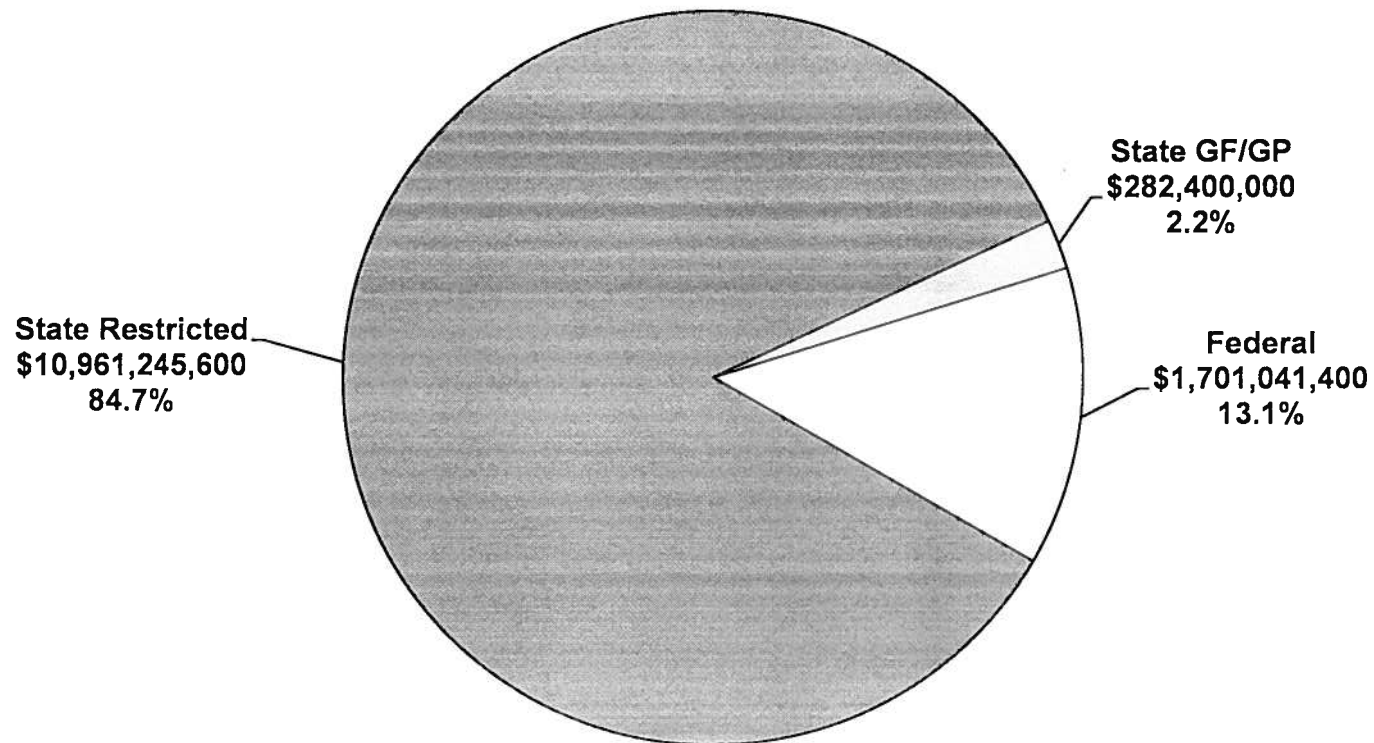


SOURCES OF FUNDING

School Aid Funding Sources

School Aid Fund restricted funds are the largest revenue source in the School Aid budget

FY 2012-13 School Aid Budget = \$12,944,687,000



SCHOOL AID APPROPRIATIONS

School Aid Appropriations

The School Aid Budget includes the following major spending categories :

- **Foundation Allowances**
 - Provides per pupil payment for general school operations
 - \$8.9 billion or 68.5% of the School Aid Budget
- **Special Education**
 - Reimburses districts for a portion of their special education costs
 - \$1.4 billion or 11.1% of the School Aid budget
- **Michigan Public School Employees' Retirement System (MPERS)**
 - Contributes a portion of annual retirement costs
 - \$326.0 million or 2.5% of the School Aid budget
- **At-Risk Programs**
 - Additional funds to help students at risk of academic failure
 - \$309.0 million or 2.4% of the School Aid Budget

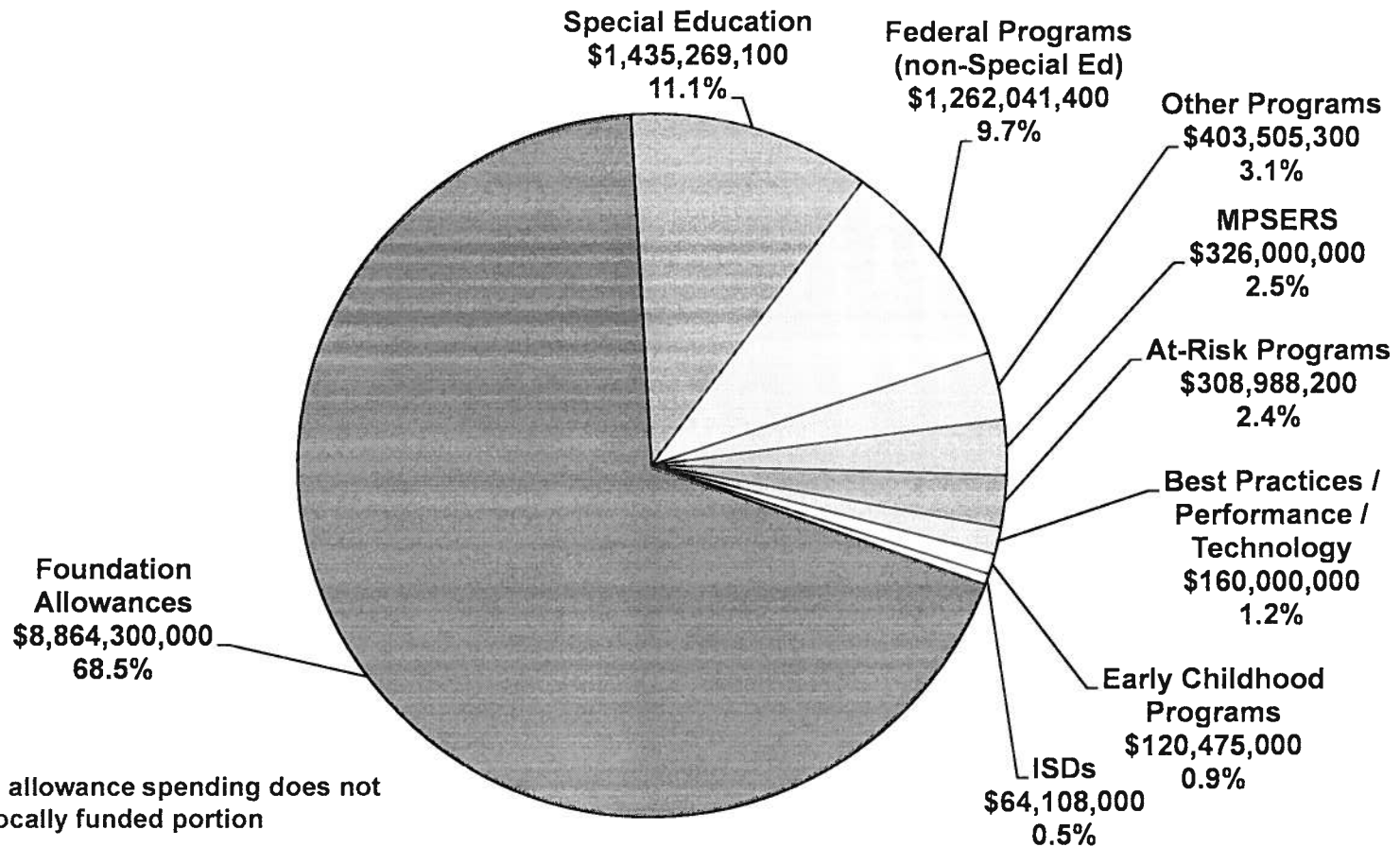
School Aid Appropriations (cont.)

- **Early Childhood Programs**
 - Provides preschool programs for 4-yr-olds and parenting programs for parents of children ages 0-5.
 - \$120.5 million or 0.9% of the School Aid Budget
- **Best Practices Incentive Grants**
 - Provides \$52 per pupil to districts meeting 7 of 8 requirements.
 - \$80.0 million or 0.6% of the School Aid Budget
- **Technology Infrastructure Improvement Grants**
 - Provides grants to prepare districts for increasing technology infrastructure needs
 - \$50.0 million or 0.4% of the School Aid Budget
- **District Performance Funding**
 - Provides up to additional \$100 per pupil to districts meeting performance requirements in reading and math
 - \$30.0 million or 0.2% of the School Aid Budget

School Aid Appropriations

Foundation allowances, used for school operations, absorb \$2 out of every \$3 spent

FY 2012-13 School Aid Budget = \$12,944,687,000



* Foundation allowance spending does not include the locally funded portion

MAJOR BUDGET ISSUES

Major School Aid Issues

- School Aid Revenues
- Foundation Allowances
- Special Education Funding
- MPSERS Funding
- Types of Schools
- Declining Enrollment

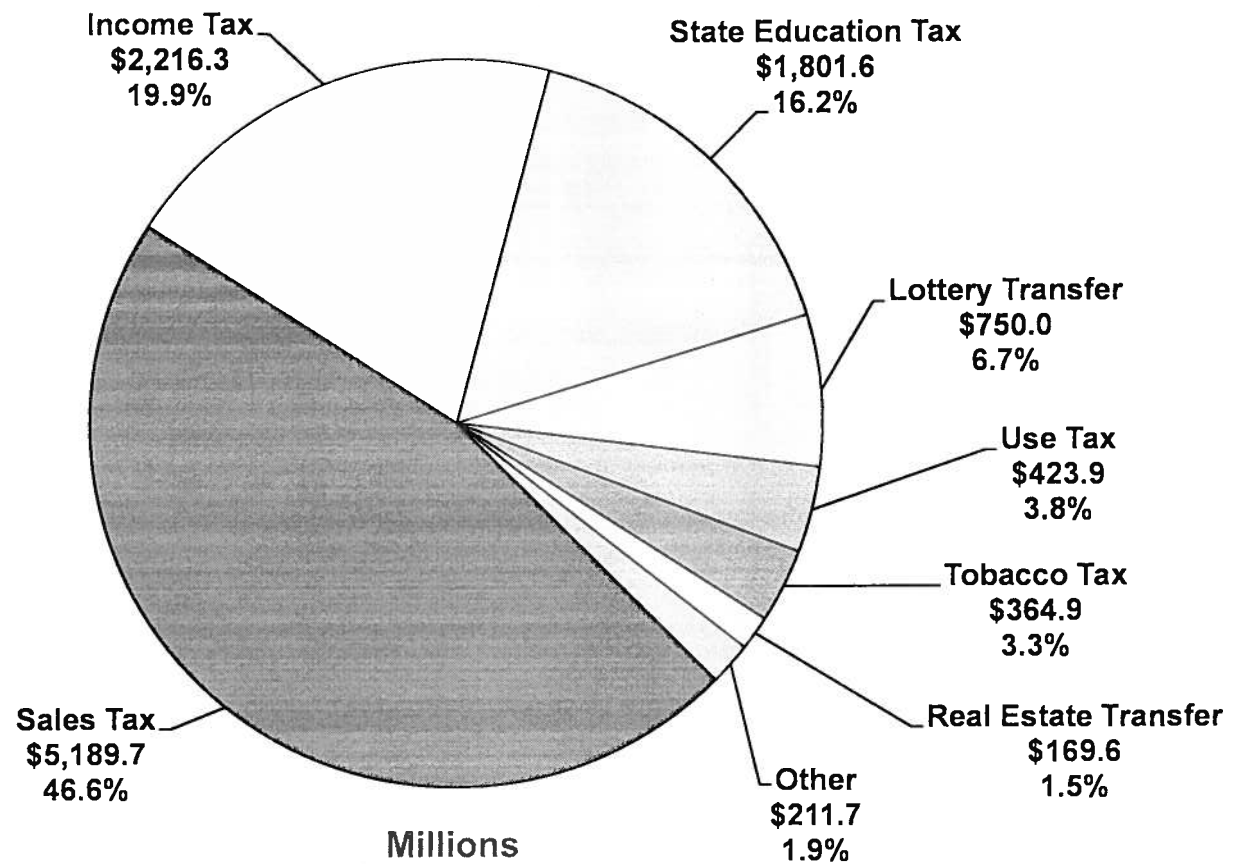
SCHOOL AID REVENUE

School Aid Fund (SAF) Revenue

- **SAF provides the majority of state funding for schools**
- **Certain taxes are earmarked , or reserved, for deposit into the SAF to pay for school operations**
- **State Constitution requires SAF to be used exclusively for schools, higher education, and school employee retirement benefits**
- **SAF will receive approximately \$11.1 billion in revenue for FY 2012-13**
- **Largest sources of SAF revenue are shown on next slide**

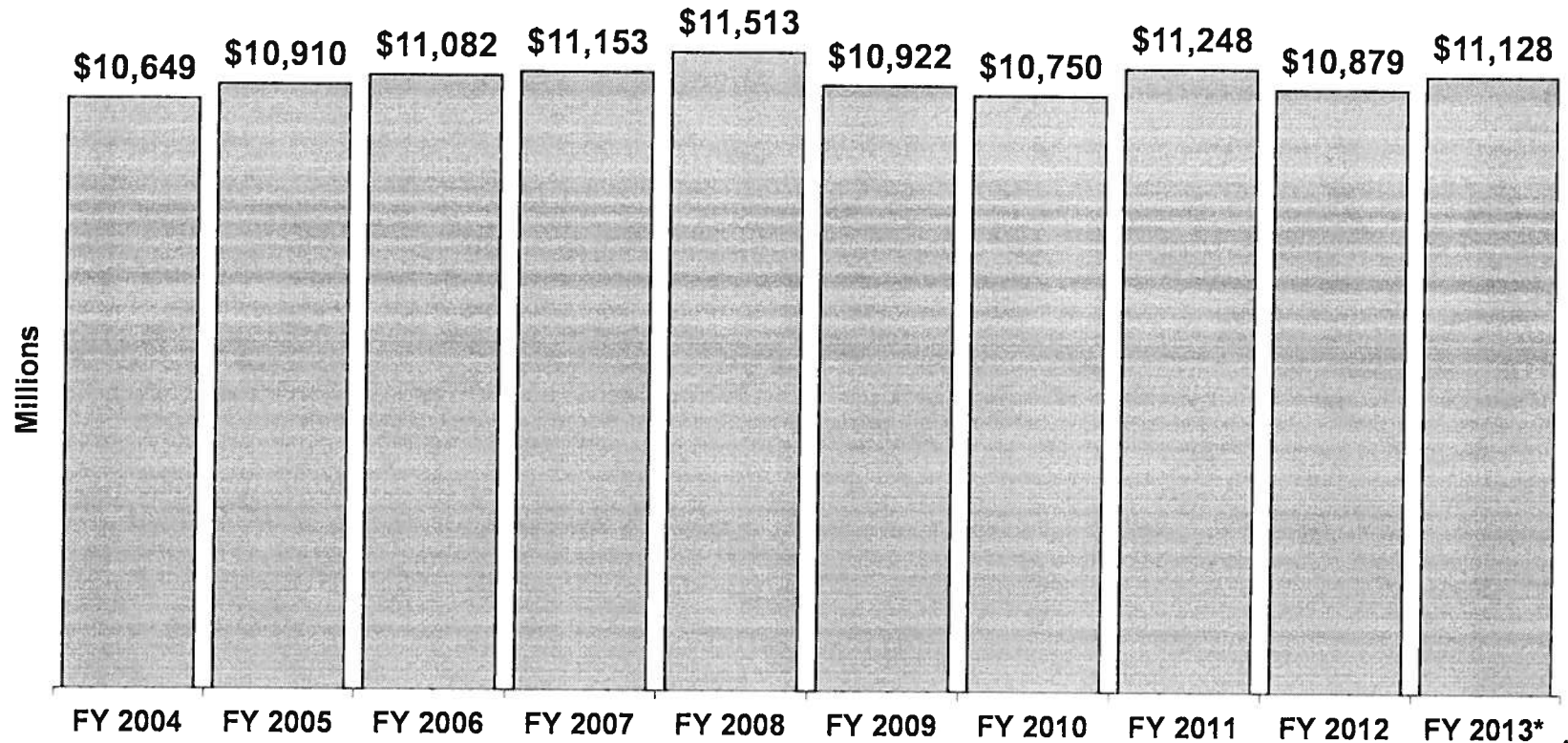
SAF Revenue Sources

FY 2012-13 Total = \$11,127.7 Million



SAF Revenue History

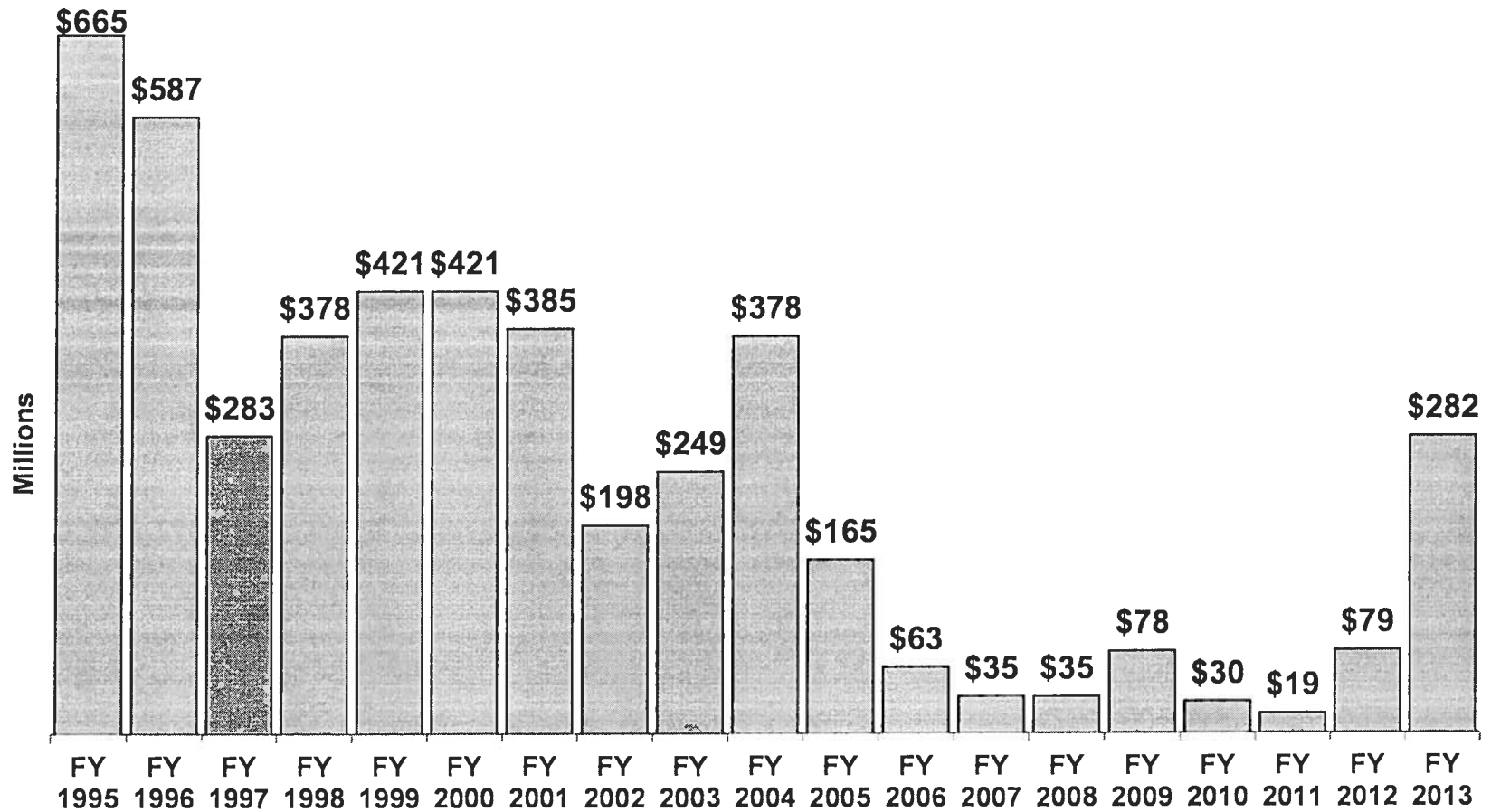
School Aid Fund is estimated to collect over \$11.1 billion in FY 2012-13, down 3.3% from its high in FY 2007-08



* FY 2013 figures from Jan 2013 Revenue Estimating Conference

GF/GP Contribution to School Aid

GF/GP will contribute \$282 million to the School Aid Budget in FY 2012-13



School Aid Balance Sheet: FYs 13 and 14

	(Dollars in Millions)	
	YTD	Baseline
	<u>FY 2012-13</u>	<u>FY 2013-14</u>
REVENUE		
Beginning Balance	\$254.0	\$38.3
School Aid Fund (SAF) Revenue	11,127.7	11,432.5
General Fund/General Purpose (GF/GP)	282.4	101.0
Federal Funds	1,701.0	1,701.0
<u>MPERS Reserve Fund</u>	<u>0.0</u>	<u>174.0</u>
TOTAL REVENUE	\$13,365.1	\$13,446.8
EXPENDITURES		
K-12: FY 12 and 13 YTD and FY 14 baseline	\$12,885.7	\$12,796.8
<u>MPERS Cost Adjustments</u>	<u>43.0</u>	<u>306.0</u>
Subtotal K-12 Expenditures	\$12,928.7	\$13,102.8
Subtotal Post Secondary Expenditures	<u>\$398.1</u>	<u>\$398.1</u>
<u>TOTAL EXPENDITURES</u>	<u>\$13,326.8</u>	<u>\$13,500.9</u>
ESTIMATED ENDING BALANCE	\$38.3	(\$54.1)
MPERS Reserve Balance	\$174.0	\$0.0
MPERS 3% Health Care Contribution Escrow Fund Balance	\$508.0	\$508.0

FOUNDATION ALLOWANCES

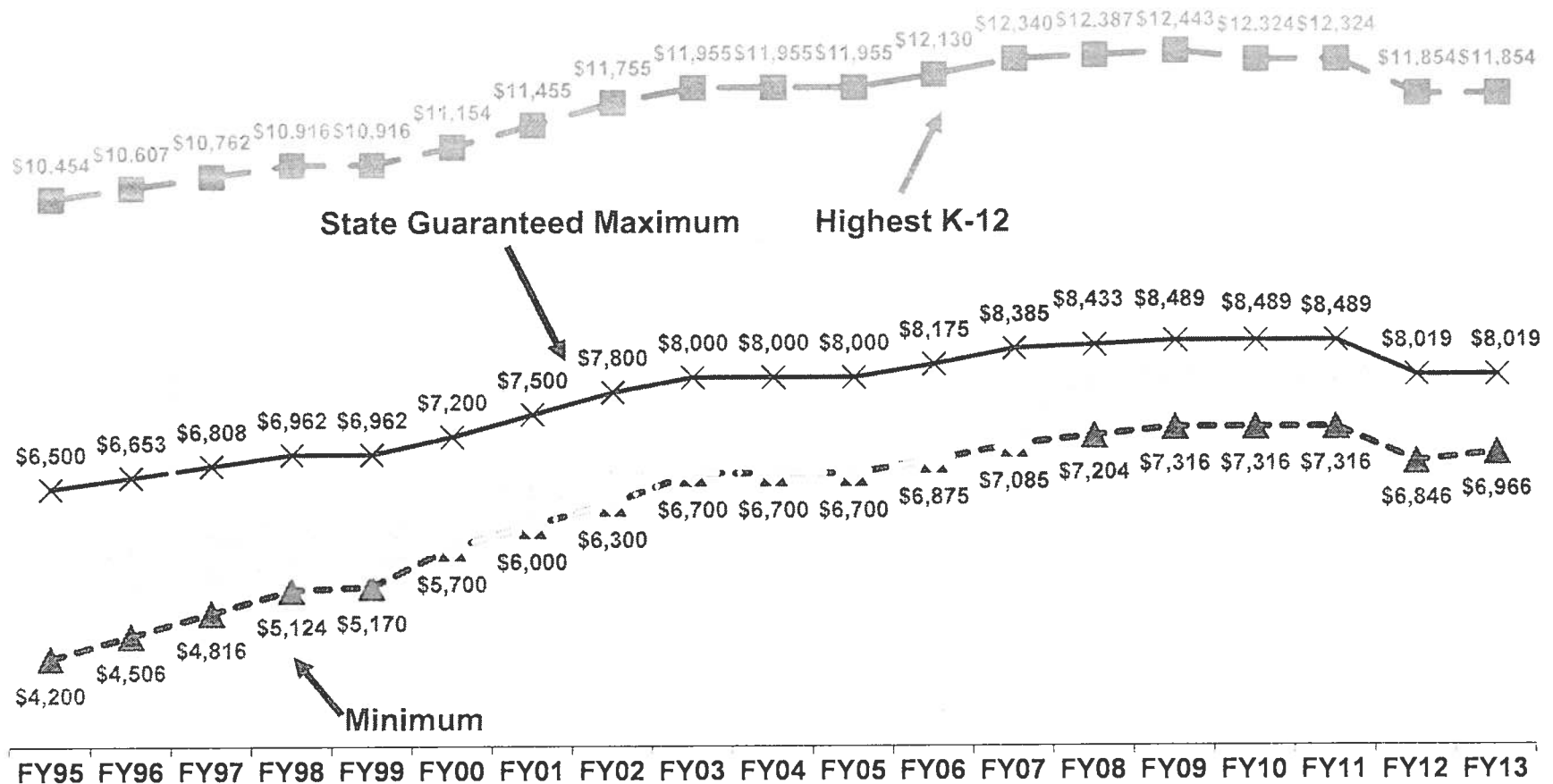
Foundation Allowance

- A per-pupil funding amount that pays the bulk of school operations created as part of the “Proposal A” school finance reforms in 1994-95
- Districts receive a foundation allowance (per pupil funding amount) initially determined in 1994-95, based on what the district collected from both state and local funds on a per-pupil bases in 1993-94
- Initial 1994-95 levels:
 - Minimum Level of funding established: \$4,200
 - Basic Level determined: \$5,000
 - State Guaranteed Maximum (Hold-Harmless) level set: \$6,500
- Varies for K-12 districts from a low of \$6,966 per pupil to a high of \$11,854 in FY 2011-12

Foundation Allowance History

Growth Since Proposal A

In FY 2012-13, an equity payment will bring the minimum foundation allowance up by \$120 to \$6,966 per pupil, which is still \$350 per pupil less than the minimum in FY 2010-11



“Basic” Foundation Allowance

- The “Basic” foundation allowance was a minimum goal established in 1994 as part of the Proposal A reforms, and it is set by the Legislature each year as a target per-pupil funding level
- In FY 1999-2000, all school districts in Michigan reached the Basic foundation allowance, after which point all districts received the same annual increases except for two years in which additional “equity” payments were made to those at the Minimum to decrease the funding gap between those at the top and bottom
- In FY 2007-08, the legislature re-set the Basic foundation allowance to equal the State Guaranteed Maximum foundation and reinstituted the 2x formula under which districts at the bottom receive twice as much an increase as those at the Basic or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula

Foundation Allowance

State/Local Funding Mix

- **Each district levies 18 mills on non-homestead property**
- **State calculates local revenue from the 18 mills on a per-pupil basis**
- **State deducts per-pupil local revenue from the lesser of the district's foundation allowance or state guaranteed maximum per pupil amount**
- **Districts above the state guaranteed maximum (hold harmless districts) are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance**

Equity Among Districts

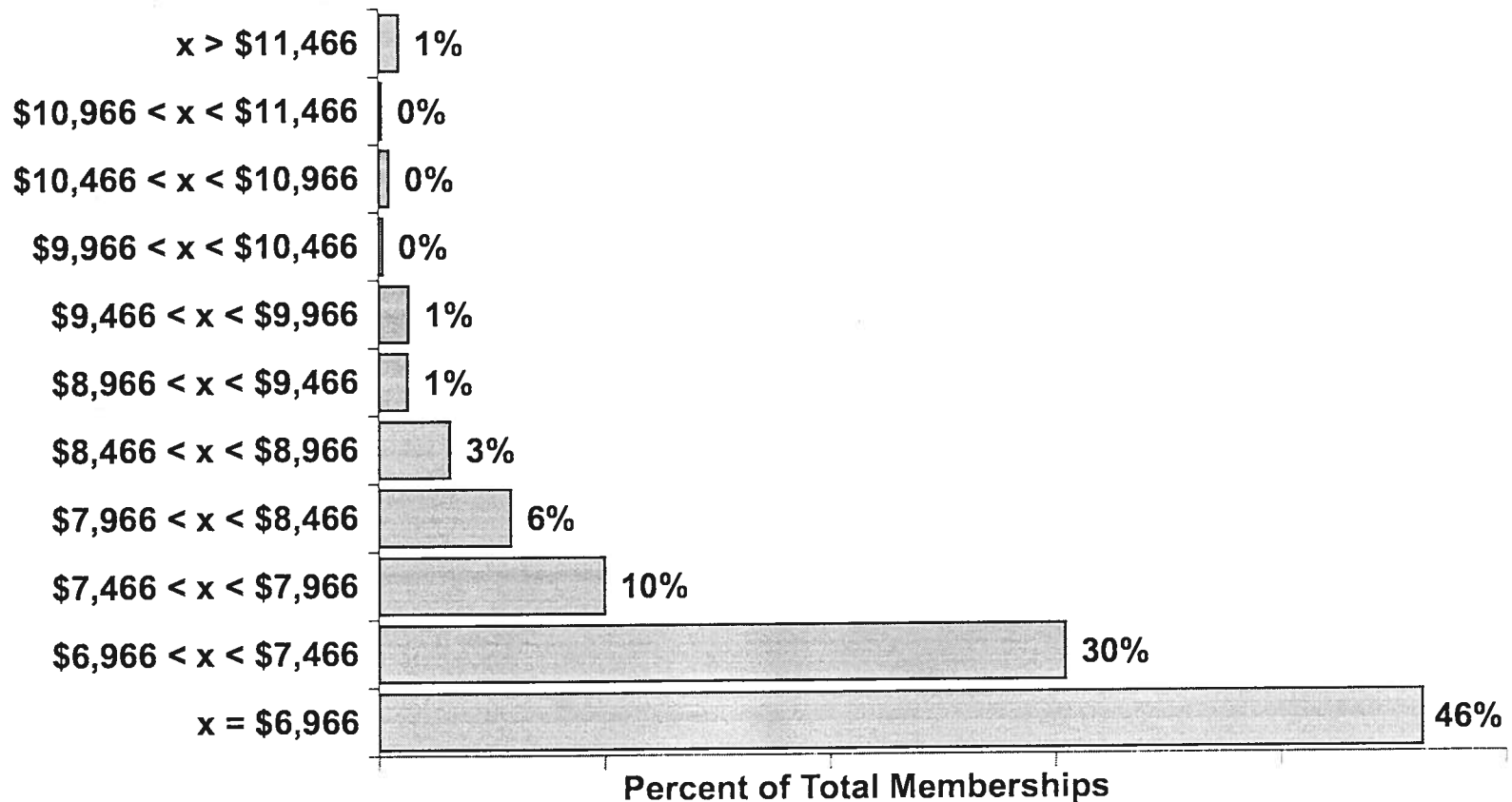
- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost \$6,900 or 3:1
- In FY 2012-13, the difference between the highest and lowest K-12 district is \$4,888, less than 1.7:1
- In FY 2012-13, excluding the 36 hold harmless districts whose revenue per pupil exceeds the Basic foundation allowance, the difference between the top and the bottom has been reduced to \$1,053, down from a gap of \$2,300 when Proposal A was first implemented

Equity Among Districts

FY 2012-13 Pupil Distribution

76% of pupils are concentrated in districts with a foundation allowance at or within \$500 of the minimum foundation \$6,966

x = Foundation Per Pupil



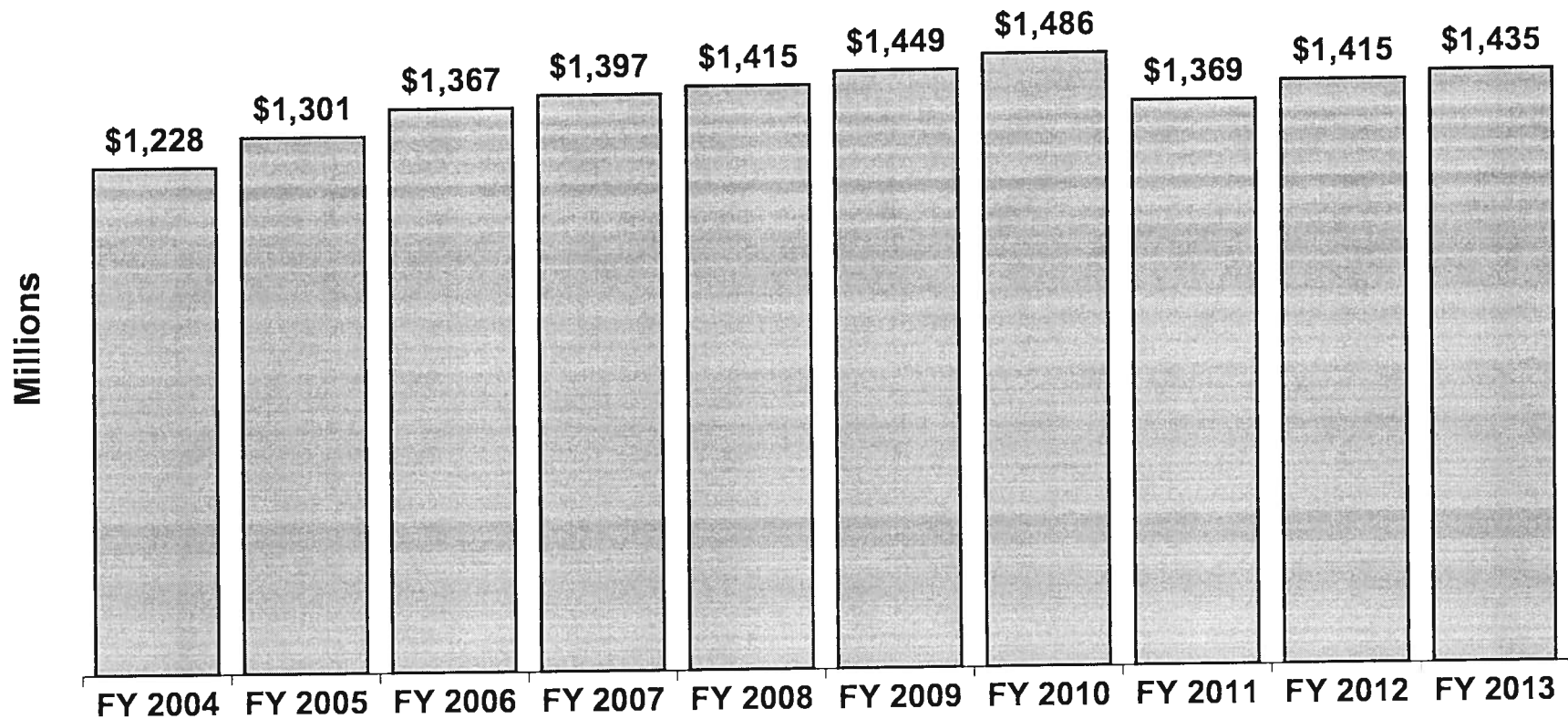
SPECIAL EDUCATION FUNDING

Special Education Funding

- **Second largest School Aid appropriation in FY 2012-13**
 - \$996.3 million state dollars
 - \$439.0 million federal dollars
- **Reimburses school districts for the costs of educating special education students**
- **Required reimbursement rates determined by the Michigan Supreme Court in *Durant v. State of Michigan* in 1997:**
 - 28.6138% of Total Special Education Costs
 - 70.4165% of Total Special Education Transportation Costs
- **Local special education millages, levied by each ISD, will generate an additional \$909.5 million in FY 2012-13.**

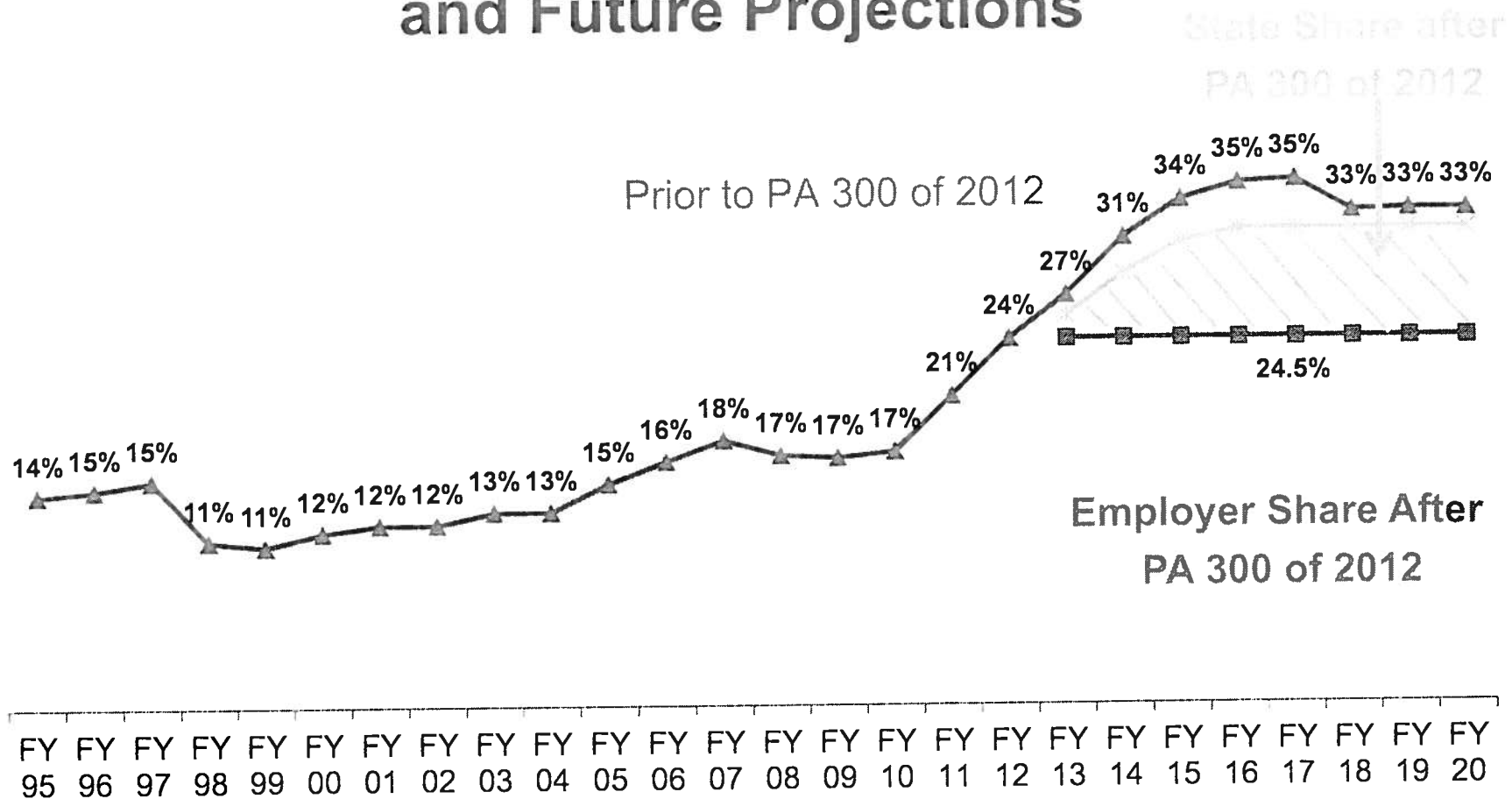
Special Education Appropriations

This categorical grew by 16.9% between FY 2003-04 and FY 2012-13



MPSERS COSTS

MPSERS Employer Contribution Rates History and Future Projections



Note: Future projected rates are from Office of Retirement Services based on current actuarial valuation.

TYPES OF SCHOOLS

Traditional, Locally Governed School Districts

- **Traditional local school districts have defined boundaries and locally elected school boards**
- **549 traditional local districts**
- **1,398,280 pupils or 90.9% of the statewide pupil membership**

Public School Academies

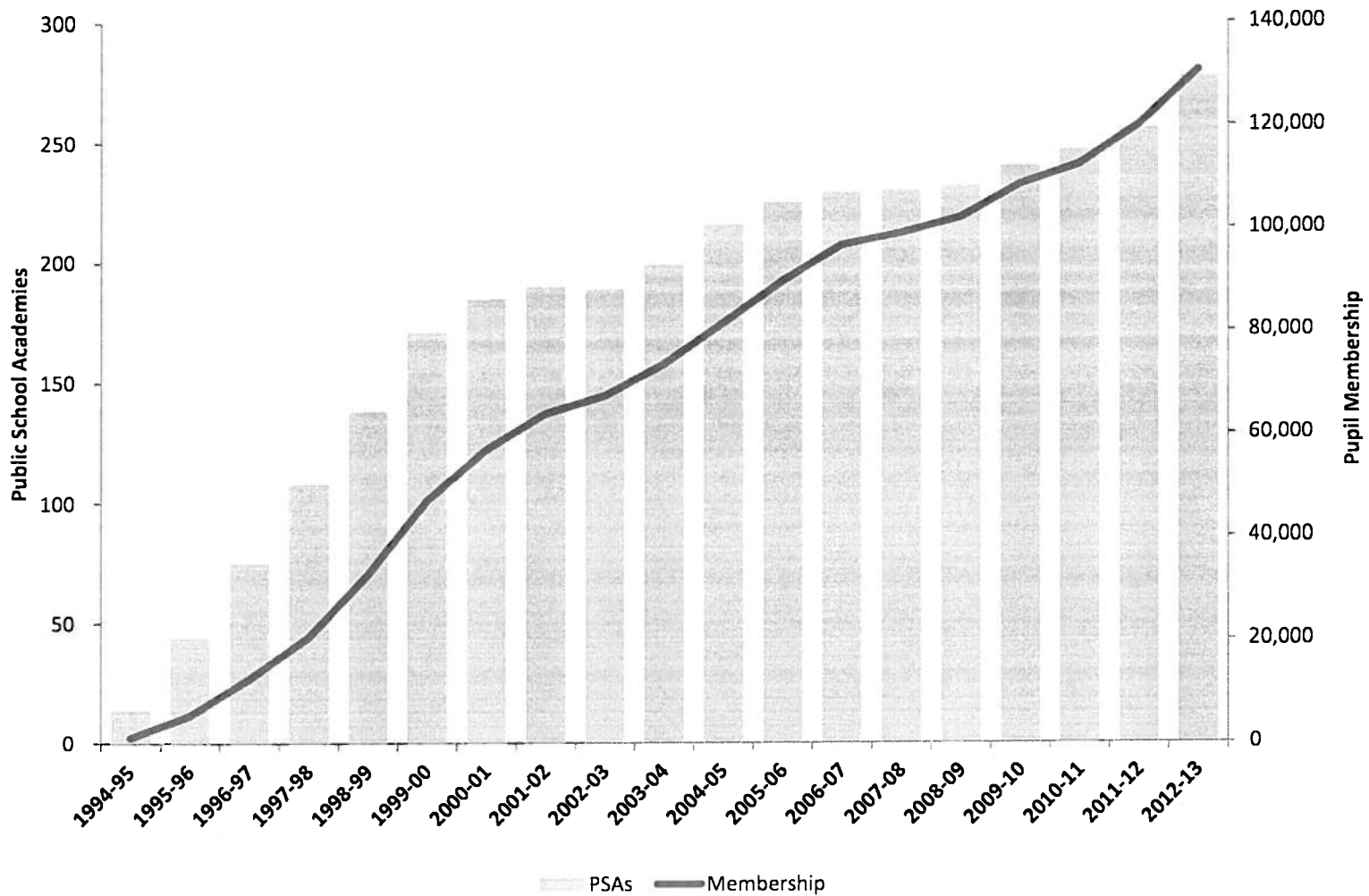
- **Public School Academies (PSAs) are independent public schools formed by individuals or groups to provide students and parents a public alternate to traditional school districts**
- **PSAs are authorized to operate by public universities, community colleges, intermediate school districts, local school districts and the Education Achievement Authority**
- **PA 77 of 2011 increased the limit on university-authorized PSAs from 150 (reached in 1999) to 300 in 2012 and 500 in 2014, after which the cap is eliminated**
 - **The bill also allowed a single PSA to operate multiple school sites with the same grade configuration**

Public School Academies

- 277 Public School Academies
- 130,300 pupils in PSAs or 8.5% of statewide pupil membership
- Average size of a PSA is 470 pupils per school
- FY 2012-13 PSA foundation allowance equals the lower of:
 - Foundation allowance of the school district in which it is physically located or
 - \$7,110 per pupil

Public School Academies

Number of PSAs and Pupil Membership



Cyber Schools

- Cyber schools are a type of public school academy
- 2010-11 was first year of operation
- 2 current cyber schools:
 - Michigan Virtual Charter Academy – 937 pupils
 - Michigan Connections Academy – 810 pupils
- PA 77 of 2011 increased limits on cyber schools:
 - Limit on schools increases to 5 in 2013, 10 in 2014, and no limit starting January 2015
 - Enrollment limited to 2,500 in first year, 5,000 in second year, and 10,000 in third year
- Fall 2010 enrollment data (1st year of operation):
 - About half of cyber students had no public school enrollment record in 2009-10
 - 86% of cyber students were in grades K-8

Education Achievement Authority (EAA)

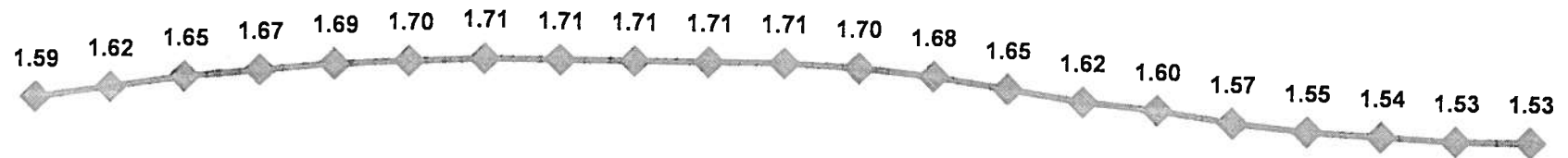
- Created by an interlocal agreement between Detroit Public School (DPS) and Eastern Michigan University in August 2011
- EAA assumed control of 15 DPS schools in FY 2012-13
 - 9 elementary/middle schools
 - 6 high schools
 - EAA converted 3 schools to a PSA
 - 10,115 pupils in total in the EAA and its PSA
- Target Population is lowest achieving 5% of schools
- 2011-12 Top-to-Bottom list of Priority Schools includes
 - 146 school buildings from 49 districts
 - 73,500 students out of 1.5 million students statewide
 - 22 schools are closed and 13 schools are in the EAA
 - 37 schools have appeared on the list for three consecutive years

DECLINING ENROLLMENT

Declining Enrollment

- Fewer pupils means a loss of revenue to schools
- 2/3 of all traditional (non-PSA) districts experienced declining enrollment from FY 2011-12 to FY 2012-13
- 1/3 of PSAs had fewer pupils in FY 2012-13 than in FY 2011-12

Declining Enrollment Total Pupil Membership Counts



Pupil Blend

50/50 FYs 95-97

60/40 FYs 98-99

75/25 FY 00

80/20 FYs 01-04

75/25 FYs 05-11

90/10 FY 11-13

FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14*	15*		

* FYs 14 and 15 figures are from Jan 2013 consensus estimates

**For more information about the
School Aid budget, contact:**

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